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Supreme Court of the United States

October Term, 1946.

No. 28.

ALPINE MacGREGOR, *Petitioner,*

v.

WESTINGHOUSE ELECTRIC & MANUFACTURING COMPANY, *Respondent.*

RESPONDENT'S BRIEF ON REHEARING.

On Writ of Certiorari to the Supreme Court of the Commonwealth of Pennsylvania.

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No. 28.

ALPINE MACGREGOR, Petitioner,

v.

WESTINGHOUSE ELECTRIC & MANUFACTURING COMPANY, Respondent.

BRIEF FOR RESPONDENT ON REHEARING.

This case has been briefed in part for this Court several times before. There have been two briefs opposing petitions for certiorari, a brief on the merits after allowance of the writ, a memorandum filed pursuant to argument, and a brief opposing rehearing. Since allowance of the petition for rehearing petitioner has filed a new brief re-arguing the case as a whole. At the oral argument the Court indicated an interest in and asked questions about certain points which we had not briefed. We here bring together and complete our arguments. We have consulted with the clerk and understand that filing this consolidated brief is in accord with practice acceptable to the Court.

Counter Statement of the Case.

Petitioner, MacGregor, defendant below, while an employee of respondent, Westinghouse, became familiar with

the composition and uses of a solder being made, used, and sold by Westinghouse, covered by its Jones patent No. 1,651,709, (Finding 3, R. 159). Upon leaving Westinghouse, MacGregor commenced the manufacture and sale of a solder of substantially the same composition and characteristics. (Finding 4, R. 159.) Westinghouse promptly sued MacGregor in the United States District Court at Pittsburgh *for infringement of its patent.* (Finding 5, R. 159.) Instead of defending that suit, MacGregor, represented by the same counsel that represents him now, entered into the license contract upon which this litigation is based. (R. 91.)

After several years operation under the license, MacGregor put on the market an additional solder of slightly varied constituents but of substantially the same operative characteristics. (Findings 4, 8, and 15, R. 159-60.) Westinghouse demanded payment of royalties on this new solder. MacGregor refused, alleging that this solder was not covered by the patent, and at the same time stopped payment of royalties on the solder that had been the basis of the infringement suit, and upon which he had been paying royalty for four years. (Findings 7, 8, and 9, R. 159-60.)

Westinghouse necessarily brought suit on the license contract in the Court of Common Pleas of Allegheny County, Pennsylvania, both parties being there residents. It could not sue in federal court for infringement because MacGregor was licensed for any product coming under the Jones patent. *The sole prayer of the statement of claim in the state court is that defendant be required to account for and pay the royalty due under the contract.* (Paragraph 15, R. 6.) MacGregor, by way of defense, pleads that the two solders above referred to do not come under the patent, that the licensed patent is invalid, and that consequently the contract as a whole is illegal under federal law because it

contains a clause requiring MacGregor to maintain licensor's prices on the patented solder. (Defendant's Answer, R. 8-16.)

The case was tried at law, without a jury, the facts being found specially by request of the parties. The findings of the trial court appear at R. 157-75, and its conclusions of law at R. 175-7. *Those findings and conclusions were approved in all respects by the Supreme Court of Pennsylvania.* (R. 245.)

The trial court received evidence offered to *limit the scope* of the licensed patent, but *refused to permit defendant to attack its validity,* on the ground that a licensee is *estopped* under Pennsylvania law to contest validity of a patent under which he holds a license. (R. 62-4.) It decided that both defendant's solders above referred to come within the scope of the patent, and therefore under the royalty-payment provision of the license agreement. (Conclusions 1 and 2, R. 175, and Opinion, R. 169.) It held that legality under federal law of the price-maintenance clauses of the contract are moot issues in the case before the state court, because no part of the suit is based thereon; that even if the price-maintenance clauses were invalid under federal law, they are "divisible" from the royalty-payment clauses under Pennsylvania law, and would not prevent plaintiff enforcing the latter provisions of the contract; that since the patent is presumptively valid, the price-control clauses are presumptively legal. It carefully considered this Court's decision in *Sola vs. Jefferson, post,* and held that it does not govern this case.

The specific conclusions of the trial court on the points above stated are found at R. 176. For convenience they are quoted here.

"6. Since the price-fixing clauses (5 and 6) of the license contract have not been asserted in this suit, any challenge by defendant of the legality and enforceability thereof raises *moot** issues.

"7. Since the Jones patent is *presumptively* valid, the price-fixing clauses 5 and 6 of the license agreement are *presumptively* legal.

"8. The case of *Jefferson v. Sola*, 63 S. Ct. 172, does not give defendant a right, under the pleadings and facts of this case, to challenge validity of the price-fixing clauses 5 and 6 of the license agreement.

"9. Defendant, being a *licensee*, and the price-fixing clauses of the license not being in suit, *is estopped to attack the validity of the patent* under which he is licensed.

"10. The price-fixing clauses 5 and 6 of the contract are *divisible subject matter*, inserted for the benefit of the licensor as a restriction on the license granted, and even if they were *per se* illegal could be stricken out of the license with no effect on the obligation to pay royalty."

The Supreme Court of Pennsylvania on the first appeal affirmed the findings and conclusions of the trial court in all respects (R. 245), remanding the case for an accounting. The opinion is reported at 350 Pa. 333, and is printed at R. 235. The subsequent proceedings established a liability of $15,485.96 for unpaid royalties under the contract, and the Pennsylvania Supreme Court affirmed a judgment for that amount. The case comes here on certiorari to the state court on the final decision, based on the law of the first decision.

The patent expired on December 6, 1944, so the contract is now effective only so far as collection of accrued royalties is concerned.

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* All emphasis in quotations in this brief is added by us, unless otherwise noted.

This case arises from the efforts of petitioner to escape payment of royalty on two of his three types of licensed solder, *while asserting his rights as a licensee and his willingness and intention to pay royalty and even to maintain Westinghouse prices on the third type of solder.* This he tried to do primarily by asserting that the two types do not come under the licensed patent. As an alternative defense he asserted illegality under federal law of the contract as a whole because it *contains* a price-fixing clause, although enforcement of that clause is not in issue.

Petitioner, testifying *pro se* at the trial, said he regarded the license as still in force and effect as applying to any solder "that properly comes under the Jones patent," and that he intended to continue to pay royalty under it.* This position was taken on advice of his counsel. R. 92.

Summary of Argument for Respondent.

We respectfully argue *first*, that this Court has no jurisdiction to review the decision of the state court below under the circumstances here involved, and *second*, that if it takes jurisdiction and reviews the record as a whole, it should, from any point of view, dismiss the writ. Our argument is developed along the lines of the following topical summary, each topic being discussed more fully, in the same order, in later portions of the brief.

(a) This case comes up from a state court: Jurisdiction in such cases is not that of a general-reviewing court,

* Findings of the trial court on this point are (R. 160):

"11. There has been no termination of the license agreement by action of the parties or otherwise."

"12. Defendant, MacGregor, testified in this case that he now regards the license agreement as in full force and effect, and that he respects his obligations thereunder in so far as the said copper-phosphorus solder is concerned."

but is in effect limited to instances of incorrect adjudications of federal law or rights thereunder. This Court will not review findings of fact or conclusion of general law made by the state court, but confines its consideration to correction of errors of federal law necessarily constituting the basis of the decision below. Nor will it render advisory opinions on federal law if, regardless of correction in that respect, the judgment of the state court would stand.

Waters-Pierce v. Texas, 212 U. S. 86; 29 S. Ct. 220.
Flournoy v. Wiener, 321 U. S. 253; 64 S. Ct. 548.
Williams v. Kaiser, 323 U. S. 471; 65 S. Ct. 363.
Herb v. Pitcairn, 324 U. S. 117; 65 S. Ct. 459.

(b) The state courts in this case did not decide any federal question, and did not deny any right of petitioner arising under federal law. Its judgment rests on grounds of state or general law, and will stand regardless of the legality or illegality of the price control clauses, *per se*, and regardless of validity of the licensed patent. See the opinion below, particularly R. 239-41, and conclusions of the trial court, R. 176.

Herb vs. Pitcairn, supra.
Flournoy vs. Wiener, supra.

(c) The state court held that petitioner, while a licensee under a patent, is *estopped* to attack validity of the licensed patent. Even if the patent be held invalid in this case, royalty accrued prior to adjudication of invalidity must be paid under the decision below. Those conclusions follow general law applicable to patent licenses. R. 176, 243.

International vs. Wood, 34 F(2) 905 (CCA2).
National vs. Heath, 40 F(2) 617 (CCA8).
Kinsman vs. Parkhurst, 59 U. S. 289.
Drackett vs. Chamberlain, 63 F(2) 853 (CCA6).

Angier vs. Eaton, 90 Pa. 594.
Patterson's Appeal, 99 Pa. 521.
Headley vs. Barber, 292 F. 119 (CCA3).
Warner vs. American, 48 F. Sup. 417, 420 (not appealed on this point).

(d) Questions of *estoppel* are matters of general law. Where a state court disposes of a case on a ground of general law that decision ordinarily will not be reviewed in this Court.

Adams vs. Burlington, 112 U. S. 123; 5 S. Ct. 77.
Eustis vs. Bolles, 150 U. S. 361; 14 S. Ct. 131.
Gillis vs. Stinchfield, 159 U. S. 658; 16 S. Ct. 131.
Rutland vs. Central Vermont Ry., 159 U. S. 630; 16 S. Ct. 113.
Pittsburgh vs. Cleveland, 178 U. S. 270; 20 S. Ct. 931.
Speed vs. McCarthy, 181 U. S. 269; 21 S. Ct. 613.
Lynch vs. People of N. Y., 293 U. S. 52, 55 S. Ct. 16.

(e) The state courts applied the general principles that a patent is presumptively valid, and a price-maintenance clause of a patent license contract is presumptively legal. Since they were not asked to enforce the price-maintenance clauses, they declined to pass on the legality of those clauses under federal law, regarding that issue as moot in the case before them. R. 176, 239-41.

American vs. DeGrasse, 157 F. R. 660.
Los Angeles vs. Aeolian, 143 F. R. 880.
Mumm vs. Decker, 301 U. S. 168; 57 S. Ct. 675.
U. S. vs. U. S. Gypsum Co., 70 U. S. P. Q. 48.
U. S. vs. General Electric, 272 U. S. 476; 47 S. Ct. 192.
Bement vs. Harrow, 186 U. S. 70; 22 S. Ct. 747.

(f) The state courts held that even if the price-maintenance clauses were illegal as contrary to the federal law, those clauses are "divisible subject matter" *severable* from other obligations of the licensee, and the obligation to pay royalty is enforceable regardless of legality of the price restrictions. R. 176, 245.

(g) The question of *severability* of an illegal clause in a contract and enforceability of remaining legal clauses is a matter of general law. This Court will not review decisions of state courts based upon severability of contractual obligations, *even though a federal question is avoided by the state court's decision on severability.*

Fox vs. Muller, 296 U. S. 207; 56 S. Ct. 183.

(h) Notwithstanding his collateral attack upon legality of the price-maintenance clauses, and his assertion of invalidity of the licensed patent, MacGregor held steadfastly to his rights as a licensee. (R. 92.) The history of this case and its predecessors show that MacGregor's sole objective was to avoid payment of royalties on two of his three licensed products.

(i) This court's decision in *Sola v. Jefferson*, 317 U. S. 173; 63 S. Ct. 172, does not change the law that a licensee cannot collaterally attack validity of a patent merely to escape payment of royalty required by an existing license contract. The *Sola* case establishes that where suit is brought *to enforce a price-control clause* of a patent license the licensee is not estopped *to challenge legality of the price-maintenance clause* by attacking validity of the licensed patent. In other words, it holds that the normal estoppel of a licensee to attack validity of the licensed patent may not be used to procure enforcement (without consideration of validity) of a part of the contract *which would be in violation of federal law* when and if the patent involved is

adjudged invalid. The court below carefully considered the *Sola* case and fully respected it. R. 237-41.

(j) The effect of sustaining petitioner's contention in this case would be to penalize patent licensors who have relied and acted on the decisions of this Court. It would seriously discourage the granting of patent licenses.

(k) By arguing to this Court that the state courts did adjudicate validity of the licensed patent "on its merits", petitioner has abandoned any basis for argument of error below, and has abandoned the whole basis of the petition for certiorari.

Argument.

(a) This is not a general review case.

This is a law suit between citizens of the State of Pennsylvania, in the courts of that state, upon a contract executed, performed, and construed within that state. The courts below decided the case on principles of general law. The only question before this Court, if it takes jurisdiction, is, we submit, did the state courts err in deciding any necessary issue based on federal law.

It seems clear to us that they did not. As we understand it, this court will review decisions of the state courts only where questions of federal law were *necessarily* decided by the court below, and *necessarily* form the basis for the judgment rendered. In *Waters-Pierce v. Texas*, 212 U. S. 86; 29 S. Ct. 220, this Court said:

> "The jurisdiction of this court to review the proceedings of the state courts, as we have had frequent occasion to declare, *is not that of a general reviewing court in error, but is limited to the specific instances of denials of federal rights*, whether those pertaining to the constitutionality of federal or state statutes, or to

certain rights, immunities, and privileges of federal origin, specially set up in the state court, *and denied by the rulings and judgment of that court.* U. S. Rev. Stat. Sec. 709, U. S. Comp. Stat. 1901, p. 575. *Nor does this court sit to review the finding of facts made in the the state court,* but accepts the findings of the court of the state upon matters of fact as conclusive, and is *confined to a review of questions of federal law within the jurisdiction conferred upon this court.*" (P. 221 of S. Ct.)

In *Flournoy v. Wiener*, 321 U. S. 253; 64 S. Ct. 548, the Court by Chief Justice Stone at page 262, said:

"Hence the case stands in the same posture as those in which we have repeatedly held that where the judgment of a state court rests in part on a non-federal ground adequate to support it, this Court will not consider the correctness of the decision which the state court also made of a federal question otherwise reviewable here. *Berea College v. Kentucky*, 211 U. S. 45, 53, 29 S. Ct. 33, 34; *Enterprise Irr. Dist. v. Farmers' Mut. Canal Co.*, 243 U. S. 157, 163, 164, 37 S. Ct. 318, 320, 321; *Lynch v. New York*, 293 U. S. 52, 54, 55, 55 S. Ct. 16, 17; *Fox Film Corp. v. Muller*, 296 U. S. 207, 210, 211, 56 S. Ct. 183, 184. In such a case this Court has said that it will not enter 'a useless and profitless reversal' 'where the same judgment will be rendered by the court below, after they have corrected the error in the Federal question.' *Murdock v. City of Memphis*, 20 Wall. 590, 634, 635, 22 L. Ed. 429. Compare *Pugh v. McCormick*, 14 Wall. 361, 374, 20 L. Ed. 789. * * *

The cause is accordingly dismissed for want of jurisdiction."

In his dissenting opinion, Mr. Justice Frankfurter said at page 264:

"2. We do not review a case from a state court which can be supported on a non-federal ground because federal authority ought not to intrude upon the domain of the States. This far-reaching political consideration was decisive even after the Civil War in settling the rule that not only do we not review a case from

a state court that can rest on a purely state ground, but *we do not even review state questions in a case that is properly here from a state court on a federal ground. Murdock v. City of Memphis*, 20 Wall. 590, 22 L. Ed. 429."

In *Williams v. Kaiser*, 323 U. S. 471; 65 S. Ct. 363, the Court by Mr. Justice Douglas, said at page 477:

"It is a well established principle of this Court that before we will review a decision of a state court it must affirmatively appear from the record that the federal question was presented to the highest court of the State having jurisdiction *and that its decision of the federal question was necessary to its determination of the cause. Honeyman v. Hanan*, 300 U. S. 14, 18, 57 S. Ct. 350, 352, 81 L. Ed. 476; *Lynch v. New York*, 293 U. S. 52, 55 S. Ct. 16, 79 L. Ed. 191. And where the decision of the state court might have been either on a state ground or on a federal ground and *the state ground is sufficient to sustain the judgment, the Court will not undertake to review it. Klinger v. Missouri*, 13 Wall. 257, 263, 20 L. Ed. 635; *Wood Mowing & Reaping Mach. Co. v. Skinner*, 139 U. S. 293, 297, 11 S. Ct. 528, 530, 35 L. Ed. 193; *Allen v. Arguimbau*, 198 U. S. 149, 154, 155, 25 S. Ct. 622, 624, 49 L. Ed. 990; *Lynch v. New York, supra. We adhere to those decisions.*"

Mr. Justice Frankfurter, in the dissenting opinion, at page 481, said:

"From the beginning, such has been the principle governing our review of state court decisions. *In cases coming here from the state courts, this Court has no power to pass on questions of state law; it can review a state court decision only insofar as that raises a question of federal law; and it can only then pass on the federal question if a decision on federal law was necessary for the judgment rendered by the state court.* This historic distribution of judicial authority as between the state courts and this Court was confirmed and reinforced during the Reconstruction period when the influences toward expansion of federal jurisdiction were at floodtide. *Murdock v. City of Memphis*, 20 Wall. 590, 22 L. Ed. 429."

In *Herb v. Pitcairn*, 324 U. S. 117; 65 S. Ct. 459, the opinion by Mr. Justice Jackson, said:

> "*Third.* This Court from the time of its foundation has adhered to the principle that *it will not review judgments of state courts that rest on adequate and independent state grounds. Murdock v. Memphis*, 20 Wall. 590, 636, 22 L. Ed. 429; *Berea College v. Kentucky*, 211 U. S. 45, 53, 29 S. Ct. 33, 34, 53 L. Ed. 81; *Enterprise Irrigation District v. Farmers' Mutual Canal Co.*, 243 U. S. 157, 164, 37 S. Ct. 318, 320, 61 L. Ed. 644; *Fox Film Corp. v. Muller*, 296 U. S. 207, 56 S. Ct. 183, 80 L. Ed. 158. The reason is so obvious that it has rarely been thought to warrant statement. It is found in the partitioning of power between the state and federal judicial systems and in the limitations of our own jurisdiction. *Our only power over state judgments is to correct them to the extent that they incorrectly adjudge federal rights. And our power is to correct wrong judgments, not to revise opinions.* We are not permitted to render an advisory opinion, *and if the same judgment would be rendered by the state court after we corrected its views of federal laws, our review could amount to nothing more than an advisory opinion.*" (p. 125) * * *
>
> "It is our purpose scrupulously to observe the long standing rule that we will not review a judgment of a state court that rests on an adequate and independent ground in state law." (p. 128).

(b) The courts below did not decide any federal question or deny any right arising under federal law.

The decision of the Pennsylvania courts was to the effect that petitioner-licensee must pay the agreed royalty upon products found to come within the scope of the licensed patent. MacGregor contended that certain of his products do not come within the scope of the license, but on this point the court below decided against him. The judgment of the court was for payment of accrued royalty, and nothing else (R. 177, 253, 261, 262). It is clear therefore

that the judgment *per se* does not involve any federal law. It is only as a matter of attempted collateral defense to a suit for accrued royalty that any possibility of questions arising under federal law comes into the case. The courts below refused to decide those questions because in the case presented they are moot questions, and because even if petitioner-defendant's position on the illegality of a portion of the contract were correct, the part in suit is "divisible" from the allegedly illegal part, and will be enforced by the state court (R. 176, 245.).

(c) The Pennsylvania courts followed general principles in holding a licensee estopped to attack validity of the patent while the license is in force. Even if the patent were held invalid, accrued royalty would be payable.

In its opinion (R. 243), the court below discusses the doctrine of estoppel as applied to patent licenses, and states,

> "* * * we could base our present judgment on the principle that a licensee cannot challenge the validity of a patent which is the subject of a license which he has accepted to sell or use that patent."

The court then cites federal and Pennsylvania cases on estoppel, including *Angier v. Eaton*, 90 Pa. 594, which says:

> "The recognized principle applicable to such (patent) licenses is that while the patent is apparently valid and the licensee is enjoying the benefit of its supposed validity, he is bound to pay the stipulated royalty, and cannot set up as a defense the actual invalidity of the patent * * *."

The court below also cited in support of its application of the doctrine of estoppel, *Patterson's Appeal*, 99 Pa. 521, and this Court's decision in *Kinsman v. Parkhurst*, 59 U. S. 289.

During the first oral argument before this Court, we were asked by the Chief Justice to discuss the question of estop-

pel. We had assumed that the general principle of estoppel of a licensee under a patent to attack validity of the patent while retaining his license rights (in the absence of special circumstances) was clearly established, and we had not briefed that point, or prepared to argue it at length.

We think the decision in the present case of the Supreme Court of Pennsylvania that under the law of that state this licensee is estopped to contest validity of the patent under which he holds a license is controlling on that point for this case.

It has been held in many cases that a licensee is bound to pay royalty in accord with his contract so long as he has the benefit of the license. His obligation to pay as agreed in his contract terminates only when invalidity is determined in some extraneous way amounting to an eviction. Under those circumstances the royalty accrued prior to the date of eviction can be collected by a suit on the contract. This Court has in effect so held in its decision in *Kinsman v. Parkhurst*, 59 U. S. 289, discussed below. It is clear that in the case at bar, MacGregor must pay the judgment rendered below *even if on new trial the patent should be held invalid*. He was not evicted from his license rights before the patent expired, there has been no failure of consideration flowing from licensor, and MacGregor must pay royalty under his contract up to that date, in any event. The price-control clauses—regardless of their questioned legality under federal law, cannot prevent enforcement of the money judgment because they have been held divisible and separable from the obligation to pay royalty by the state court.

This Court's decision in *Kinsman v. Parkhurst, supra*, has been cited in later opinions of this Court, and by decisions of the lower courts, on the points stated in the pre-

ceding paragraph. Kinsman took a part interest in a patent from Parkhurst and agreed to stop manufacturing thereunder after he had reimbursed himself. Kinsman reimbursed himself but did not discontinue. Suit was brought by Parkhurst *for an accounting.* Kinsman defended on the ground of *invalidity of the patent.* The Court found for plaintiff, saying:

> "The principal objection made by the appellants to the decree of the court below is, that Parkhurst was not the original and first inventor of the thing patented. We are not satisfied that this is made out. But we have not found it necessary to come to a decided opinion upon this point, because we are all of opinion that, under the agreement of the 9th of February, 1846, *the invalidity of the patent would not afford a bar to the complainant's right to an account.* Having actually received profits from sales of the patented machine, which profits the defendants do not show have been or are in any way liable to be affected by the invalidity of the patent, its validity is immaterial. *Moreover, we think the defendants are estopped from alleging that invalidity. They have made and sold these machines under the complainant's title, and for his account; and they can no more be allowed to deny that title and retain the profits to their own use, than an agent, who has collected a debt for his principal, can insist on keeping the money, upon an allegation that the debt was not justly due.*" (P. 292.)

In *Headley Good Roads Co. v. Barber Asphalt Paving Co.*, 292 F. 119, the Third Circuit Court of Appeals held that so long as a licensee continues to operate under a license it must pay stipulated royalties which became due before reissue of the licensed patent, whether the patent was valid or invalid prior to reissue. In reaching this decision, *the Court applied the Pennsylvania law which is applicable to the MacGregor contract now before this Court.* Also, it cited *Kinsman v. Parkhurst.* The following language of the Court covers the point now under discussion (p. 120):

"[1] It must be kept in mind, however, that *this suit is based on the license agreement and not on the validity of the patent.* The defendant does not contend that in the price it charged and received for the emulsion, the stipulated royalties, now in issue, were not computed and collected from the railroads. No contention is made that defendant did not receive during the period in question all the advantage from the license agreement that it would have received, had there never been a reissue. *So long as the defendant enjoyed the benefit of the license agreement, manufactured and sold under the presumably valid patent, it must pay the stipulated royalties in question, all of which became due before the application for a reissue was filed, whether the patent was valid or invalid. Robinson on Patents,* vol. 3, 697; *Angier v. Eaton, Cole & Burnham Co.*, 98 Fa. 594, 600; *Patterson's Appeal*, 99 Pa. 521; *Covell v. Bostwick* (C. C.) 39 Fed. 421; *Homes, Booth & Haydens v. M'Gill*, 108 Fed. 238, 47 C. C. A. 681; *Kinsman v. Parkhurst*, 59 U. S. (18 How.) 289, 293, 15 L. Ed. 385."

In *National Clay Products Co. v. Heath Unit Tile Co.*, 40 F. (2) 617, (C. C. A. 8), defendant maintained that it had a subsisting license, and at the same time attempted to plead that the patent was invalid. The attack on validity was stricken out of the pleadings upon motion, and this action was approved on appeal, the Court citing *Kinsman v. Parkhurst.*

The language of the Court on this point at page 618 is as follows:

"The defense and counterclaims of defendant are based upon the insistence that the license is subsisting in it. Such being its position, and it being in the attitude of a licensee, it is estopped to deny the validity of the patents covered thereby. *United States v. Harvey Steel Co.*, 196 U. S. 310, 25 S. Ct. 240, 49 L. Ed. 492; *Kinsman v. Parkhurst*, 59 U. S. 289, 293, 15 L. Ed. 385; *H. C. White Co. v. Morton E. Converse & Son Co.*, 29 F. (2d) 311, 313 (C. C. A. 2); *Victory, etc., Co. v. O. & J. Mach. Co.*, 280 F. 753, 759 (C. C. A. 1); *Kohn v. Eimer,*

265 F. 900, 904 (C. C. A. 2); *Miami Cycle Co. v. Robinson*, 245 F. 556, 565 (C. C. A. 6); *Chicago & A. Ry. Co. v. Pressed Steel C. Co.*, 243 F. 883, 887 (C. C. A. 7); *Tate v. B. & O. R. R. Co.*, 229 F. 141, 142 (C. C. A. 4); *Indiana Mfg. Co. v. J. I. Case Mfg. Co.*, 154 F. 365, 370 (C. C. A. 7); *Holmes, B. & H. v. McGill*, 108 F. 238, 244 (C. C. A. 2)."

In *International Burr Corporation v. Wood Grinding Service*, 34 F. (2) 905, the Second Circuit Court of Appeals held, as we understand it, that while a licensee may defend on the ground of invalidity of the patent after a license is revoked or otherwise terminated, it is liable for royalties accrued prior to termination of the license. In reaching this conclusion, the court cited *Kinsman v. Parkhurst*. The language of the court on the point under discussion is as follows (page 909):

"[4] There remains the question whether that portion of the decree may stand which requires *an accounting for damages due to the defendant's acts while its license remained unrevoked*. By stipulation defendant admitted the sale, without payment of royalty, to a nonlicensee of the process patent, of flat-bottom burrs, 'said burrs being manufactured under and in accordance with the Hall patent, 1,219,299.' We have to decide whether a licensee may set up the invalidity of his licensor's patent when sued for acts beyond the scope of his license, but performed during the license term. The doctrine of estoppel between licensee and patentee has not escaped criticism (Keener, Quasi Contracts, 37-39; Woodward, Quasi Contracts, Sec. 62), *but is too firmly established in the law to be questioned when the licensee is sued for acts within the scope of his license*. *Kinsman v. Parkhurst*, 18 How. 289, 15 L. Ed. 385; *United States v. Harvey Steel Co.*, 196 U. S. 310, 25 S. Ct. 249, 49 L. Ed. 492."

In *Drackett Chemical Co. v. Chamberlain Co.*, (C. C. A. 6), 63 F. (2) 853, Chamberlain granted Drackett an exclusive license under a patent. The two companies joined in

an infringement suit against a third party. The trial court found no infringement. Drackett then notified Chamberlain that it would continue to send credit memoranda showing royalties due under the license, but that such royalties would be paid only if the patent was held valid. Later another court held the patent invalid. In a suit for accrued royalties the court held that the Drackett Company was estopped to deny validity and it ordered the Drackett Company to pay royalties *up to the expiration date of the patent.* In reversing and remanding that decision, the Court of Appeals held that there was an eviction of the license rights *by the decree of invalidity* and that royalty was not payable *after* the adjudication, saying:

> "*Prior to such eviction, the mere invalidity of the patent is properly held not to be a sufficient defense,* because the licensee may still continue to enjoy all the benefits of a valid patent. It may be respected, and the licensee would then have just what he bargained for. *McKay v. Smith, supra. It is only when, by judicial decree or otherwise, it is published to the world that the monopoly is destroyed, that the licensee can claim a corresponding release from his obligation to pay royalties.* * * * (P. 854.)
>
> "Our conclusion is that, under the authorities above cited, there was no such mistake of fact (the validity of the patents) as would warrant a recovery of royalties already paid; * * * that the appellant is not estopped to set up such eviction, and, in view of the notice theretofore given, *the obligation to pay royalties should cease as of the date of such decision; but that all royalties accruing prior to that date must be paid.*" (P. 855.)

In *Warner Bros. Co. v. American Lady Corset Co.*, 48 F. Sup. 417 (not appealed on this point), defendant took a license to manufacture and sell under a patent. This license was later cancelled by the plaintiff due to defendant's refusal to pay royalties. The plaintiff then sued

for *royalties up to the date of cancellation.* On the point under discussion, the court held—

> "[2] Defendant urges that in the event that I find the Field patent invalid, plaintiff should not recover the royalties unpaid on the sale of defendant's leno garments to the date of the cancellation of defendant's license. *I cannot hold with defendant in this contention. The law is clear. So long as the defendant enjoyed the benefit of the license agreement, manufactured and sold under the presumably valid patent, it must pay for the stipulated royalties until 'evicted'*, which in this case would be up until the license was cancelled by the plaintiff. *Drackett Chemical Co. v. Chamberlain Co.*, 6 Cir., 63 F. 2d 853; *Headley Good Roads Co. v. Barber Asphalt Paving Co.*, 3 Cir., 292 F. 119."

In *Patterson-Ballagh Corporation v. Byron Jackson Co.*, 145 Fed. (2) 786, the Ninth Circuit Court of Appeals said:

> "[6] Where there is a simple licensing agreement under a patent, and an ensuing judicial declaration of the patent's invalidity, or even a serious narrowing of the claims, it has been held that the licensee is released from *further* obligation to pay royalties. *Drackett Chemical Co. v. Chamberlain Co.*, 6 Cir., 63 F. 2d 853; *Armstrong Co. v. Shell Co. of California*, 98 Cal. App. 769, 277 P. 887. In such a case, the licensee pays simply for the continuing value of a license in enabling him to manufacture or sell goods on favorable terms; there being no other complications, it is a simple matter to release him from his obligation *when the favorable terms bargained for cease to exist.*" (P. 789.)

(d) This Court will not review state court decisions based on estoppel.

As we understand its cases, this Court will not, under ordinary conditions, review a decision of a state court where the judgment below is based upon *estoppel*, even though, except for the estoppel, a federal question might have been involved, and even though the holding of estoppel

prevents enforcement of a right based on federal law. It has consistently refused to review decisions of a state court where one of the parties was not permitted to enforce an alleged right existing under federal statutes, where the state court held the action, otherwise good, could not be maintained because of *estoppel, laches*, or some like bar arising under general law as applied by the state court. Some of the cases which we understand to establish the principle we rely on are the following:

Adams County v. Burlington Railroad, 112 U. S. 123; 5 S. Ct. 77, came up on writ of error to the Supreme Court of Iowa. Title to land was claimed by the county and also by the railroad. The county relied on the Federal Swamp-Land Act, and the railroad on the Iowa Land-Grant Acts.

The state court held for the railroad on the ground that the county was *estopped* to deny the Burlington title to the land, even if under the federal statutes, the county's title would otherwise have been good. This Court dismissed the writ, saying:

> "* * * the decree rested alone on the *defense of estoppel, which was broad enough to control the rights of the parties without disposing of the federal question which it was attempted to raise.* In other words, it was adjudged by the state court that the title of the company must prevail in this suit because the county was precluded by its conduct from insisting to the contrary. * * * *It follows that we have no jurisdiction*, and the motion to dismiss is granted." (P. 80, S. Ct.)

To the same effect see *Eustis v. Bolles*, 150 U. S. 361; 14 S. Ct. 131, which came up on writ of error to the Supreme Court of Massachusetts, and *Gillis v. Stinchfield*, 159 U. S. 658; 16 S. Ct. 131, which came up on writ of error to the Supreme Court of California. In the latter case this Court said:

"But the decision of the [California] supreme court was clearly based upon the *estoppel* deemed by that court to operate against plaintiffs in error upon *general principles of law* and the statute of California in respect of such a conveyance as that to Stinchfield, *irrespective of any federal question. And this was an independent ground, broad enough to maintain the judgment.* The writ of error must therefore be dismissed." (16 S. Ct. 132.)

Rutland v. Central Vermont Railway Co., 159 U. S. 630; 16 S. Ct. 113, came up on writ of error to the Vermont state court. It involved the respective obligations under federal law of the lessor and lessee of a railroad to pay the state taxes. The state court held that the lessor could not recover taxes paid by it even though the lessee was required to pay them under federal law, *because the lessor was guilty of laches in asserting his claim.* This Court dismissed the writ for lack of jurisdiction stating that the *decision of the non-federal question (laches) was broad enough to support the judgment.*

"Such being the case, the conclusion is inevitable that this Court has no jurisdiction to review the decision of the state court.

"It is well settled, by a long series of decisions of this Court, that where a highest court of a state, in rendering judgment, *decides a federal question and also decides against the plaintiff in error upon an independent ground, not involving a federal question,* and broad enough to support the judgment, the writ of error will be dismissed, without considering the federal question." (Citing many cases.) (16 S. Ct. 116.)

Pittsburgh v. Cleveland, 178 U. S. 270; 20 S. Ct. 931, came up by writ of error to the Supreme Court of Michigan. The questions involved below were property rights in the bed of a lake which had been drained. *Plaintiff asserted that the controversy involved the construction and effect of federal land-grant patents.* The state Court held that plain-

tiff could not recover even though under the federal law he might have had good title, because the *parties had a contract* for the draining of the lake covering the ground in question and that by the terms of this contract and the operation thereunder *plaintiff was estopped* to assert the title in controversy, and further that plaintiff was estopped by *laches*. It also held that plaintiff *being a tenant of a portion of the premises in dispute was estopped to deny defendant's title*. The state courts dismissed the complaint, and plaintiff brought writ of error to this Court. In reaching its decision *this Court held that it would not go into the federal questions that might otherwise have been controlling because the state court had disposed of the case on non-federal grounds, viz; estoppel and laches.* This appears from the following extracts from the opinion:

> "It is manifest that the [state] supreme court rested its decision on the grounds (1) that the pumping contract was a settlement of boundaries between the contestants; (2) that what was done and expended under it worked an *estoppel* against the plaintiff; (3) *laches* of the plaintiff, in asserting its claim whereby the *status quo* could not be restored."
>
> "*It requires no argument to demonstrate that neither of these grounds involve a Federal question.* But plaintiff in error contends that they were all made to depend upon a Federal question, which the court erroneously decided, and therefore that they necessarily involve such question. * * *"
>
> "But again, and whatever the error in that conclusion (we do not assert there was any), the court decided, as an independent ground of *estoppel*, that plaintiff was guilty of *laches*, and *that was sufficient to sustain its judgment.*
>
> "The case must ~~therefore~~ be dismissed for want of jurisdiction."

Speed v. McCarthy, 181 U. S. 269; 21 S. Ct. 613, came up on writ of error to the state court of South Dakota. The case involved adverse claims to mining property. Plain-

tiffs in error contended that their title arose under statutes of the United States, relating to the patenting of mining claims under federal laws. *The state court held that defendants below could not deny the validity of plaintiff's locations because of estoppel.*

This Court said:

> *"And whether a party is estopped or not is not a Federal question."* (21 S. Ct. 615.)

This Court further said:

> "The state court thus disposed of this branch of the case upon *general principles of law*, and its decision did not rest on the disposition of a Federal question." (21 S. Ct. 616.)

After stating the alleged federal rights involved, this Court said:

> "We think these general allegations fall short of that definite claim of a right or title under a statute of the United States, which Sec. 709 requires; and that, as the record stands, *this court would not be justified in holding that the state court denied a right or title specially set up as secured by the statute, when it determined this particular question on the general principles of law recognized as prevailing in South Dakota.*" (21 S. Ct. 616.)

Lynch v. People of New York, 293 U. S. 52, came up on certiorari to the Supreme Court of New York. The State Tax Commission had levied income tax upon petitioner's property located in the State of Ohio. Petitioner pleaded that his rights under the federal constitution were violated. The New York courts while considering cases referring to constitutional points did not rest their decisions upon the Constitution, but held the tax proper under the state law.

This Court held that it had no jurisdiction *because the decision was based on non-federal grounds*, saying:

"It is essential to the jurisdiction of this Court in reviewing a decision of a court of a state that it must appear affirmatively from the record, not only that a federal question was presented for decision to the highest court of the state having jurisdiction *but that its decision of the federal question was necessary to the determination of the cause, and that it was actually decided or that the judgment as rendered could not have been given without deciding it.* [Citing many cases.] Where the judgment of the state court rests on two grounds, one involving a federal question and the other not, or if it does not appear upon which of two grounds the judgment was based, and the ground independent of a federal question is sufficient in itself to sustained it, this Court will not take jurisdiction." [Citing many cases.]

(e) The courts below were not in error in declining to pass on the moot legality of the price-maintenance clauses under federal law, the licensed patent being presumptively valid, price-maintenance clauses in a patent license being presumptively legal, enforceability of those clauses not being in issue, those clauses being severable if illegal.

In the case below legality of the price-maintenance clauses under federal law, and validity of the licensed patent, were treated as moot questions. A patent duly issued under the seal of the United States Patent Office is *prima facie* valid. We know of no case to the contrary. There are many cases so holding. See for example, *American v. DeGrasse*, 157 F. R. 660, 663; *Los Angeles v. Aeolian*, 143 F. R. 880, 884; *United States v. U. S. Gypsum Company*, 70 USPQ 48.

In *Mumm v. Jacob E. Decker & Sons*, 301 U. S. 168, 57 S. Ct. 675, this Court said at p. 171:

"The issue of the patent is enough to show until the contrary appears, that all the conditions under which a discovery is patentable in accordance with the statutes have been met. Hence, the burden of proving want of novelty is upon him who avers it. *Walker on Pat-*

> *ents*, §116. Not only is the burden to make good this defense upon the party setting it up, but his burden is a heavy one, as it has been held that '*every reasonable doubt should be resolved against him.*'" [Citing cases.]

There is no case known to us holding that it is illegal *per se*, or presumably illegal, to provide in a *bona fide* patent license contract that licensee shall maintain the minimum prices established by licensor for its own sale of the patented product. Such restrictions in a patent license are discussed and approved by this Court in *United States v. General Electric*, 272 U. S. 476; 47 S. Ct. 192, and in the older case of *Bement v. National Harrow Company*, 186 U. S. 70, 22 S. Ct. 747. Those well-known cases cover specifically the exact point we are arguing. In the *Bement* case the Court briefly states the matter in a single paragraph as follows:

> "The provision in regard to the price at which the licensee would sell the article manufactured under the license was *also an appropriate and reasonable condition.* It tended to keep up the price of the implements manufactured and sold, but that was only recognizing the nature of the property dealt in, and providing for its value so far as possible. This the parties were legally entitled to do. *The owner of a patented article can, of course, charge such price as he may choose, and the owner of a patent may assign it or sell the right to manufacture and sell the article patented upon the condition that the assignee shall charge a certain amount for such article.*" (22 S. Ct. 756.)

It is where a patent license has been used as a subterfuge to cloak a conspiracy the main object of which is to fix prices by agreement, or to extend price fixing to unpatented things, or to control sales conditions in a whole industry by agreements going outside the reasonable needs of the patentee to protect his business in the marketing of the patented invention, or to control resale prices, that restrictive patent license agreements have been held illegal by this

Court. The cases cited in Petitioner's Brief on Rehearing at pp. 11-16 and 40-41 are to that effect. None of them applies here.

The recent opinion of Judge Stevens for a special three judge court in the District of Columbia in the case of *U. S. vs. U. S. Gypsum Co.*, 70 USPQ 48 contains a study of the law applicable to restrictions in patent licenses and their status under the federal anti-trust laws. Concerning the legality of price-control restrictions in patent licenses as treated in the *General Electric* case, Judge Stevens said:

> "By unanimous decision the Court sustained the validity of the General Electric-Westinghouse license. *It held that the restrictive provisions were not violative of the Sherman Act.*" (p. 72.) * * *
>
> "The right of a patent owner to control the terms and conditions including the minimum price under which a licensee may make and sell the patented product as established in the *Bement and General Electric* cases has not been denied or qualified in later cases. On the contrary, the later cases reaffirm that right." * * * (p. 74.)
>
> "The *General Electric* case establishes that a patent license agreement granting the right to make, use and vend a patented product, under terms and conditions, including prices, fixed by the licensor, is lawful." (p. 87.)

(f) Since the courts below held the price-maintenance clauses severable from the royalty-payment clauses, since enforcement of the price clauses is not in issue, legality of those clauses is moot in this Court, and the judgment below stands regardless of a decision on legality.

In addition to refusing to consider the moot question of legality of the price-control clauses, the courts below held in effect that even if the price-control clauses were illegal under federal law, the contract to pay royalty could still be enforced, the price-control clauses being severable from the obligation to pay royalty under the law of contracts as construed in Pennsylvania. On this point, the trial court found as a conclusion of law (R. 176):

"10. The price-fixing clauses 5 and 6 of the contract *are divisible subject matter*, inserted for the benefit of the licensor as a restriction on the license granted, and even if they were *per se* illegal could be stricken out of the license with *no effect on the obligation to pay royalty.*"

This conclusion was approved on appeal (R. 245). It is therefore apparent that by holding the price-control clauses severable, the state court below made any consideration of the legality of those clauses in this court moot, since it *is apparent that had the state court found those clauses illegal it would have severed them and held them no bar to the judgment for accrued royalty due under the patent license contract.* It follows from this decision of the court below on a question of general law that—should this Court take jurisdiction to consider all of the points sought to be raised by petitioner, and even should it hold the licensed patent invalid, and the price-fixing clauses in the contract illegal under federal law, remanding the case to the state court for further proceedings in accordance with the law so established,—*the judgment below would nevertheless stand.* We have shown elsewhere that under general law principles a licensee must pay royalty until evicted even if a patent is adjudged invalid while the license is in effect. The money judgment below would therefore stand, regardless of any decision that might be made as to legality of clauses in the contract that are severable from the obligation to pay royalty. This court will not render moot opinions under such circumstances. On this point we cite *Flournoy vs. Wiener, supra*, and *Herb vs. Pitcairn, supra.*

(g) This Court will not review state court decisions on severability of legal from illegal obligations of a contract.

The question of severability of the price-control clauses of the contract in suit is a matter of general law. The

Pennsylvania courts have decided that the clauses are "divisible" and severable from the royalty-payment clauses, and even if illegal would not prevent collection of royalty due under valid parts of the contract. As we understand the cases in this Court, that decision below on that point of general law will not be reviewed.

Fox v. Muller, 296 U. S. 207; 56 S. Ct. 183 was brought up on certiorari to the Supreme Court of Minnesota. While this is cited by petitioner as establishing jurisdiction, it supports respondent's position that this Court will not review the case at bar. Fox sued Muller in the state court to recover damages for breach of contracts by which Muller was licensed to exhibit certain moving picture films belonging to Fox. Muller (just as does MacGregor in the present case) pleaded invalidity and unenforceability of the contracts as a whole on the ground that they contained an arbitration clause which had been held to violate federal statutes. Fox argued that the clause was severable, and the remainder of the clauses enforceable. The trial court held the illegal clause was:

> "so connected with the remainder of the contract that the entire contract is tainted." (Page 208.)

It therefore dismissed the complaint.

The state supreme court on appeal said:

> "*The question presented on this appeal is whether the arbitration clause is severable* from the contract, leaving the remainder of the contract enforceable * * *." (Page 209.)

It held that the arbitration clause was *not severable* from the remainder of the contract.

In this Court, Fox, to support jurisdiction, asserted that a federal question (legality of the arbitration clause under the federal anti-trust laws) was decided by the state court. Respondent contended that the question of severability was

controlling and that after its adjudication no federal question remained to be determined by the lower court. This Court said:

> "* * * the case is controlled by *the settled rule that where the judgment of a state court rests upon two grounds, one of which is federal and the other non-federal in character, our jurisdiction fails if the non-federal ground is independent of the federal ground and adequate to support the judgment.*" (Page 210.)

This Court then went on to say that the *question of severability of the alleged illegal arbitration clause is one of general law and the decision of the state court thereon would not be reviewed in this Court.* The language on this point is as follows (Page 210):

> "In that situation, *the primary question to be determined by the court below* was whether the concededly invalid clause was *separable* from the other provisions of the contract. *The ruling of the state Supreme Court that it was not, is sufficient to conclude the case* without regard to the determination, if, in fact, any was made, in respect of the federal question. *It follows that the non-federal ground is adequate to sustain the judgment.* * * * The construction put upon the contracts did not constitute a preliminary step which simply had the effect of bringing forward for determination the federal question, *but was a decision which automatically took the federal question out of the case if otherwise it would be there.*"

In *Flournoy v. Wiener*, 321 U. S. 253; 64 S. Ct. 548, Mr. Justice Frankfurter in his dissenting opinion said at page 272:

> "10. In any event the decision below did not go off on a non-federal ground. It cannot be said of this case as was true of a case like *Fox Film Corp. v. Muller*, 296 U. S. 207, 211, 56 S. Ct. 183, 184, 80 L. Ed. 158, that the case in effect was disposed of before the federal question said to be involved was reached. *Chouteau v. Gibson*, 111 U. S. 200, 4 S. Ct. 340, 28 L. Ed. 400; *Chapman*

v. Goodnow's Adm'r, 123 U. S. 540, 548, 8 S. Ct. 211 [215], 31 L. Ed. 235. A decision of that question then became unnecessary; and whether it was decided or not, our want of jurisdiction is clear.' "

(h) Petitioner MacGregor holds his position as a licensee while denying legality of the contract and validity of the licensed patent.

MacGregor, although pleading as a matter of collateral defense to the payment of royalties that the entire license contract is illegal, and the licensed patent invalid, nevertheless held to his rights as a licensee. Even as late as the trial of the case, testifying on his own behalf, he specifically acknowledged the license contract as then in effect (see footnote at p. 5 above). This makes it clear that the attack on validity of the patent and legality of the contract as a whole is a mere tactical defense set up in an attempt to escape the payment of royalties provided by the contract. MacGregor's testimony on this point during the trial was, it seems to us, in effect a waiver of any attack on legality of the contract as a whole.

We regard this original position of MacGregor as of substantial importance to the issues of this case in the court below, and utterly contradictory of the position he argues to this Court now. His former stand is clear and was not taken unadvisedly. To show this, we quote from MacGregor's testimony on cross-examination at R. 91-2:

"Q. * * * You were sued, were you not?

A. I received a paper served upon me which I construed as meaning I was sued.

Q. And you went to Mr. Jaspert and retained him as your attorney to defend you in that suit?

A. Yes, sir.

Q. And acted under his advice in connection with that suit?

A. Yes, sir.

Q. And then you took a license in order to settle that suit, to avoid trying the suit?

A. I took a license in settlement of that suit. I will deny it if the question is that I did it to avoid anything.

Q. Anyhow, at that time you preferred to take a license under this patent rather than to try that infringement suit?

A. I ultimately concluded to do that.

Q. And did it?

A. And did it.

Q. Now then, this question will be out of order ordinarily, but there has been an inference cast here, and you took that license entirely voluntarily and without any coercion or threat of any kind, did you not, other than the threat of litigation?

A. I would not mind stating all the factors in my mind—

Q. Just answer the question. *Were you coerced in any way to take that license? Did you have to take it for any reason?*

A. *No, I didn't have to take it.*

Q. *You were confronted with going through with the patent infringement suit or taking the license?*

A. *That's right.*

Q. You and your counsel decided to take the license, and you did take the license?

A. Yes, sir.

Q. *You still have that license in effect?*

A. *That's right.*

Q. And you have made phosphorus copper solder without any other ingredient and have paid a royalty under that license?

A. That's right.

Q. *And if you made any tomorrow, you would pay a royalty under that license?*

A. *Yes, sir.*

Q. You regard the license as still in force and effect?

A. *I regard the license as still in force and effect under advice from Mr. Jaspert, as applying to the phos-copper alloy alone.*

> Q. *In other words, you regard the license as still in force and effect as covering anything that properly comes under the Jones Patent, do you not?*
>
> A. *That properly comes under the Jones Patent, yes, sir.*"*

At page 22 the Brief for Petitioner on Rehearing says—

> "* * * petitioner MacGregor always did maintain the Westinghouse prices."

It supports this by quoting the testimony of MacGregor in the trial below (R. 93) to the effect that

> "I maintained and still maintain the Westinghouse prices."

It seems to us that such a position amounted, in effect, to a waiver by MacGregor of the defense of illegality of the price-control clause of the contract in suit. If, as petitioner pleaded and now contends, the licensed patent is *prima facie* invalid for reasons apparent on the face of the patent, and the price clauses consequently illegal, he was, in effect, waiving that defense, and recognizing the legality of the contract, when up to and during the trial of the case, according to his testimony, he "still maintains the Westinghouse prices," and continued to pay royalty on one of his three solders. In effect his position was and is that he respects the contract and patent when applied to one solder, but he wants to be free from the contract as to the other two licensed solders, because the contract as a whole is illegal and violates federal law. That shows the utter inconsistency of MacGregor's position at the trial and here.

(i) The SOLA Case does not control the case now befor this Court.

An exception to the general rule that a licensee is estopped to attack validity of the licensed patent, is the sub-

* On this and other evidence, the trial court made the findings quoted in the footnote at page 5 above.

ject of *Sola Electric Company v. Jefferson Electric Co.*, 317 U. S. 173; 63 S. Ct. 172, cited and relied on by petitioner in this case.

It appears from the several opinions in that case that Jefferson licensed Sola under a patent, that Sola was required to maintain on its licensed products the prices established by Jefferson for its sale of its patented products, and was required to pay royalty. After having operated under the license for some time, Sola refused to pay royalty on certain of the licensed products and refused to maintain licensor's established prices on those products, because, it asserted, the only claims of the patent covering those licensed products had been held invalid by the Sixth Circuit Court of Appeals in *France v. Jefferson*, 106 F. (2d) 605.

Jefferson then sued Sola to recover the royalties withheld, and *also for an injunction restraining Sola from selling the licensed products at prices below those established by the licensor.* The Seventh Circuit Court of Appeals (125 F. (2d) 322) held that Sola was estopped to deny validity of any claim of the licensed patent so long as it remained a licensee under the patent, ordered it to pay the accrued royalties, *and enjoined it from selling any licensed products in violation of the price-maintenance clause of the contract.*

Petitioner argues the Sola decision as broadly giving any licensee sued in any court for unpaid royalties a *right under federal law* to attack validity of the licensed patent, if there is a price-maintenance clause in the license agreement, regardless of whether that clause is enforced, or is in litigation, or is severable from the other provision of the

contract.* We think the decision must be interpreted as restricted to the actual case that was before this Court, where *enforcement* of the price-maintenance clause was a *major issue* in the case, and where the judgment below would enforce illegal price control under an invalid patent. (The patent had previously been held invalid in *France vs. Jefferson, supra*—according to Sola's contention.)

That the price-fixing clause in the *Sola* case was directly in issue appears in the first paragraph of this Court's statement of the case:

> "The *question for our decision* is whether a patent licensee, by virtue of his license agreement, is estopped to *challenge a price-fixing clause* in the agreement by showing that the patent is invalid and that the price restriction is accordingly unlawful because not protected by the patent monopoly."

To "challenge a price-fixing clause" necessarily implies to us an attempt to enforce a price-fixing clause. As we read its cases, this Court does not concern itself with challenges that merely raise moot questions. The Sola Company when it appeared here was *under injunction requiring it to observe the price-fixing clause.* Note the last sentence of the second paragraph of the opinion:

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* On the other hand, at page 18 the Brief for Petitioner on Rehearing correctly states what we believe to be the effective decision of this Court in the *Sola* case by quoting from it the following sentence:

> "The federal courts have been consistent in holding that local rules of estoppel will not be permitted to thwart the purposes of statutes of the United States."

Petitioner then goes on to cite and analyze a number of decisions of this Court to support that statement. That is entirely unnecessary, and any discussion of the cases there cited would be superfluous here, because we do not question the statement of law in the above quoted sentence.

The Supreme Court of Pennsylvania gave the same construction to the *Sola* case as that indicated in the quotation just above, and the *Sola* case was similarly construed, as we understand it, by the Second Circuit Court of Appeals in *Nachman vs. Kay*, 139 F. (2) 781.

"Respondent sought recovery of unpaid royalties and *also an injunction restraining further sales except in conformity to the terms of the license agreement.*"

As the state court below said in its opinion in our case, at R. 241:

"In the instant case the plaintiff is not attempting to enjoin the defendant from selling the products he is licensed to sell, at prices less than those charged by the licensor. To grant the relief prayed for here does not result in anything which is interdicted by the Federal Anti-Trust laws. Therefore, the decision in the *Sola* case, *supra*, does not govern the decision of any issue raised in this case."

We believe this Court in the *Sola* case had no intention to decide broadly that a licensee has an absolute right under federal law to attack validity of a licensed patent to escape royalty payment,—merely because a price-restrictive clause is present in the license. To have done so would have been an advisory decision, going beyond the issues of the case before the Court. Such advisory decisions are contrary to the policy of this Court, as we understood its statements on that point.

In *U. S. v. Alaska*, 253 U. S. 113, 40 S. Ct. 448, the Court said at page 116:

"* * * *it is a settled principle in this court that it will determine only actual matters in controversy essential to the decision of the particular case before it.* Where by an act of the parties, or a subsequent law, the existing controversy has come to an end, the case becomes moot and should be treated accordingly. However convenient it might be to have decided the question of the power of the Commission to require the carriers to comply with an order prescribing bills of lading, *this court 'is not empowered to decide moot questions or abstract propositions, or to declare, for the government of future cases, principles or rules of law which cannot affect the result as to the thing in issue in the case before it.* * * *'"

(j) Sustaining petitioner's contentions in this case would discourage the granting of patent licenses.

We cannot believe that the *Sola* case is capable of any such construction as that for which petitioner contends. If so construed that case would be equivalent to a federal statute saying that it is *prima facie* illegal to include a price-control clause in a patent license; and that when such a clause is present the license contract shall not be enforced in any of its terms in any court *until after* a court has tried the issue of validity of the patent and found it valid. That would amount in effect to a *severe penalty* for inclusion of the clause in a patent license on an unadjudicated patent. It would impose upon any licensor who requires his licensee to maintain established prices for the patented product, an obligation to litigate validity of his patent (regardless of whether it had been infringed) before he could enforce any other part of the license contract, or sue for any royalty thereunder. That, we respectfully submit, is not the effect of the *Sola* decision.

The result of establishing such law obviously would be to discourage the granting of patent licenses. The holder of a strong patent will not ordinarily license a competitor to use a patented invention and permit him to undersell the patent owner. The reasons for this are based on sound grounds of common sense and good business policy that are obvious. If a patent holder is not allowed, without the penalty above set out, to control a licensee's minimum prices as a restrictive condition of granting a license, in most cases it will be to the patent owner's best interest to grant no license, but to sue his competitor for infringement when and if he invades the patented field. For this Court to adopt petitioner's interpretation of the *Sola* case would penalize patent owners who have drawn their licenses in accordance with the decisions of this Court. Infringement

suits involving validity are often complicated and expensive. If patent owners must go through such suits as a *prerequisite* step to suit to collect royalty, or to enforce any other term of the license contract, while the licensee enjoys immunity from the hazards of an infringement suit and holds to the benefits of the license—they will be better off to grant no license, and seek the full benefit of successful infringement litigation.

(k) Petitioner's argument to this Court that the lower courts adjudicated validity of the licensed patent on the merits destroys the basis of the petition for certiorari.

We call to the Court's attention the fact that petitioner filed a "Reply Brief" in this Court before the preceding argument in which at page 2 petitioner stated:

> "The lower court did decide the question of validity of the Jones patent *on the merits* * * *."

If that statement of petitioner to this Court be accepted as binding on him, we submit that petitioner has no standing before this Court to argue error below,—because the error he relies on was not committed: The theory on which petitioner got into this Court, as we understand it, is based on the assertion that his *right* under federal law to deny validity of the licensed patent was denied, and that the court below *refused* to decide the issue of validity and the issue of legality of the price-control clauses. It seems obvious to us, therefore, that when petitioner after getting into this Court on that ground, states to it that *the lower court did decide the question of validity of the Jones patents on the merits*, he has utterly destroyed the basis for any argument of the questions stated in the petition for certiorari. Had petitioner told the Court in his petition, as he now has in his briefs, that the state court decided the issue of validity of the patent, and that what he is seeking here is a *reversal* of that decision "on its merits," we think

it clear the writ of certiorari would not have been granted. If so, the issues here would obviously be entirely different from those stated at page 2 of the petition, or those based upon the errors assigned at page 14 of the brief in support of the petition.

We have not depended on this point for the reason that the record shows clearly that validity on the merits was not considered below.* MacGregor was held *estopped to deny validity*, and on that holding, the whole case directly or indirectly rests. The reckless statement under discussion was made to support the argument that validity of the patent having been decided on the merits below is open to reversal on its merits here. But the statement having been made to this Court in a brief, it not having been disavowed or corrected after discussion at the first oral argument, or in the two briefs petitioner has filed since that argument, we submit that it should be binding on petitioner, and not binding on respondent, and that it is *per se* adequate basis for dismissal of the petition now.

Reply to Petitioner's Brief on Rehearing.

Petitioner's cases re jurisdiction are not in point.

The Brief for Petitioner on Rehearing at page 2 cites seven cases of this court which he believes sustain jurisdiction in this case. All of those cases relate to review by certiorari of state court decisions, but none of them indicates to us that the Court will take jurisdiction in the present case. On the contrary, *Fox vs. Muller*, discussed above,

* Petitioner's Brief on Rehearing at page 6 says:
"In the subsequent trial of the issues in the state court, *the court refused testimony and exhibits as proof of invalidity of the patent* * * *" (R. 62 —R. 64).
At page 20 it says:
"Although concluding that the patent was *not before the court on the merits of validity*, the trial court said * * *."

is, in our opinion, strongly to the contrary. None of the other cases seem to us to be in point.

Palmer v. Brown, 297 U. S. 227; 56 S. Ct. 450, was taken up by certiorari because the state court was confronted with a conflict of *interpretation of the Federal Bankruptcy Act* in the United States Courts of Appeals of the 2nd and 8th Circuits. The state court followed the 2nd Circuit, and in doing so *necessarily had to interpret and apply a federal statute.* This appears in the opinion of this court at page 228:

> "The question for our determination is the construction to be given to section 60a and section 60b of the [Federal] Bankruptcy Act."

Obviously a federal question was *directly and unavoidably involved and decided* in the application of federal law by the state court.

Minnie v. Port Huron, 295 U. S. 647; 55 S. Ct. 884, was brought up on certiorari to the Supreme Court of Michigan. Petitioner, while at work on the deck of a ship, lying in navigable water, was knocked off by a swinging hoist, falling upon the wharf. He sued for compensation under the *state* law, assuming the injury occurred on the wharf and therefore came under state law. His employer contended that because the injury originated on the ship the *federal* maritime law governed the case. That asserted applicability of federal law was denied by the state court. It was held in this Court that the federal maritime law applied, and the case was reversed and remanded.

Noble v. Oklahoma, 297 U. S. 481; 56 S. Ct. 562, came up on certiorari to the Supreme Court of Oklahoma. It involved title to lands that had belonged to Indian tribes. The state court in deciding the case had necessarily construed federal laws relating to Indian lands, the federal

law establishing Oklahoma Territory, and the federal law relating to transfer of Indian lands for railroad rights of way. The decision of the state court therefore involved not only interpretation and application of federal statutes, but directly involved and adjudicated rights claimed under the federal statutes relating to Indian lands.

Gilvary v. Cuyahoga, 292 U. S. 57; 54 S. Ct. 573, brought to this Court by certiorari to the Supreme Court of Ohio, was a personal injury case. A switchman was injured on a train being operated in intra-state commerce, which did not comply with the federal Safety Appliance Acts (45 USCA, Sec. 1). The Supreme Court of Ohio held that plaintiff could not recover because the case was governed by the Ohio Workmen's Compensation Act, under which the facts of the case did not render defendant liable. Plaintiff maintained that the federal Safety Appliance Acts, and the Federal Employers' Liability Act (45 USCA Secs. 51-59) applied, and that under those Acts the railroad was liable. Rights claimed under federal statute were necessarily involved and this Court reviewed that issue.

Penn v. Commonwealth of Pennsylvania, 294 U. S. 189; 55 S. Ct. 386, was brought up on certiorari to the Supreme Court of Pennsylvania. A corporation was thrown into *concurrent receiverships* in both the state and federal courts of Pennsylvania. The Supreme Court of Pennsylvania held that the state court under the facts of the case had exclusive jurisdiction. The federal court had first acquired jurisdiction, and the question raised by the petition for certiorari was whether in view of the prior pendency of the case in the federal court the state court had jurisdiction to enter the final decree involved. The decree of the state court was reversed and jurisdiction of the federal court established. This Court said at page 194:

> "The state court and the federal court have thus reached an *impasse*; each asserts the right to exercise its jurisdiction with respect to substantially the same subject-matter; * * * each asserts its authority to enjoin interference, * * * and each is unable to perform its function without acquiring possessic and control of the property."

Vulcan v. Maytag, 293 U. S. 553; 55 S. Ct. 347, does not appear to have any bearing upon the case at bar since the citation merely notes the allowance of a writ of certiorari to a state court, without any indication as to what the issues were or the reasons for allowance of the writ. The writ was later dismissed at petitioner's cost. See 294 U. S. 734.

"Point I"—Petitioner's cases on estoppel are not in point.

Petitioner's Brief on Rehearing divides his argument into "Points" I and II. The first of these, stated at page 10, is that the decision below is in conflict with the decisions of this Court. Petitioner relies on the *Sola* case, which we have argued above does not control this case.

At pages 10-21 petitioner cites cases of this and other courts to support the argument that estoppels will not be allowed to protect enforcement of unlawful contracts, and to the effect that a patent affords no immunity for monopolies not fairly within the patent grant, etc. The principles of law stated in the cases cited are not disputed, but none of them applies to the case at bar. No attempt is shown in this record either directly or indirectly to bring about an illegal objective, or to enforce an illegal obligation under cover of estoppel. No attempt is shown to extend restrictive patent agreements to articles that are not fairly within the scope of the licensed patent. The court below specifically held that MacGregor's disputed forms of solder come

within the scope of the licensed patent (R. 175). Since there is no dispute on the law for which the cases are cited in this particular section of petitioner's brief on rehearing, there seems to be no occasion to discuss those cases in detail. None of them is parallel in fact or in law to the case now before the Court, and none of them supports petitioner on any issue that is to be decided here.

Petitioner's cases on severance are not in point.

At pages 24-25 of the Brief for Petitioner on Rehearing *Hazelton vs. Sheckels*, 202 U. S. 71, *Western Indemnity Company vs. Crafts*, 240 F. 1, and *Bement vs. National Harrow Co.*, 186 U. S. 70, are cited in support of the argument that the price-control clauses in the contract here in suit cannot be severed and are not divisible in subject matter. The reasoning of the Supreme Court of Pennsylvania on the matter of severability is shown by the quotation from their opinion appearing at the top of page 22 of the Brief for Petitioner on Rehearing. This question of severability of obligations of a contract is one of general law, as we have argued in the main portion of our brief, and one on which the decision of the Pennsylvania Court is controlling. Aside from that we may point out that neither the *Hazelton* or the *Western Indemnity* case is in point. They are based on facts widely different from those of the present case. In the *Bement* case, the license contract was held valid, and the question of severability was not even discussed.

In the *Hazelton* case, Sheckels had given Hazelton an option upon some real estate in the District of Columbia in consideration of Hazelton's undertaking to influence congressmen to bring about a purchase of the land by the United States. Hazelton succeeded in his efforts. The land was bought by the United States at a price materially greater than the Hazelton option. When Hazelton attempted to enforce his option, Sheckels defended on the ground that the original contract was illegal as opposed to public policy since it had for its object lobbying contrary to federal law.

In the *Western Indemnity* case the Indemnity Company issued a bond to hold harmless a state treasurer who intended to deposit public funds contrary to law. The opinion of the court specifically says that doing the thing which the bond was issued to protect involved committing a felony. There was in neither the *Hazelton* or *Western Indemnity* cases any legal obligation based upon a legal consideration and having in view a legal objective.

"Point II"—Control of resale prices is not an issue before this Court.

This point, stated at page 36 of Petitioner's Brief on Rehearing, is that the license agreement is illegal under this Court's decisions condemning *resale* price maintenance.

Argument on resale* prices has no proper place whatever in this case. It is an attempt by petitioner to engage the interest of this Court by setting up a *false* issue. We freely admit that Westinghouse could not legally have controlled under this license MacGregor's *resale* prices, and ***we have not argued anything to the contrary at any time.***

The contract in suit does not even refer to resale prices, only to "*sale*" prices, and does not require MacGregor to maintain *resale* prices on the licensed material. The Court can determine this by inspection of paragraphs 5 and 6 of the license contract (R. 125). The trial court so held and its conclusion was approved by the Supreme Court of Pennsylvania (R. 245). The conclusion of law on this point at R. 176 is:

> "5. The license agreement Exhibit 2 does not obligate MacGregor to fix resale prices of the licensed solder."

In the trial court petitioner attempted to prove that Westinghouse had required MacGregor (dehors the con-

* By "resale" in this case we mean a sale by a third party who has previously bought the patented solder from MacGregor.

tract) to maintain resale prices. Issue was joined on that question of fact (although we submit it was and is irrelevant), and *the trial court found as a fact that MacGregor had never been required* (by the contract or otherwise) *to maintain or control resale prices of his customers.* (See finding 30, quoted in the next footnote.)

In spite of this specific finding of fact, which we had thought would be accepted as conclusive by this Court, petitioner's counsel orally argued this "Point" at considerable length, and repeats it now in his Brief on Rehearing. Members of the Court asked numerous questions about it. It is because of that (to us) surprising situation that we discuss the point at all. We think it superfluous, but out of abundance of precaution, and because of questions by the Court, we point out that the finding just above quoted is supported by overwhelming weight of the evidence.

MacGregor's counsel called *as his witness* Mr. Seastone, an employee of the Westinghouse Company. This witness *for MacGregor* testified (R. 44-7) that the Westinghouse price schedules furnished to MacGregor were not intended to require fixing of his *resale* prices, that in discussing with MacGregor what was required by these schedules the question of resale prices was raised, and *thereupon MacGregor was told specifically that his resale prices could not be controlled by Westinghouse.* Furthermore, Plaintiff's Exhibits 3 and 4 (correspondence between the parties *on this very point*), offered at R. 47 printed at R. 127-30, show that pursuant to the discussion referred to by witness Seastone, MacGregor was advised by his own counsel that any control of resale prices would be illegal, and that Mr. Savage, an attorney for Westinghouse, commenting upon the advice of MacGregor's counsel, *specifically notified MacGregor in writing that Westinghouse was not attempting to control his resale prices, and that there never had been any inten-*

tion of requiring such control. The purport of these exhibits and the Seastone testimony was carried into fact findings 27-30 of the trial court (R. 162-3).*

If MacGregor controlled the resale prices of his customers, as his counsel seems now to contend, he did it not because he was required by the license contract to do so, and not because the Westinghouse Company *required him to do* so, and with knowledge, through written advice of *his* counsel, and written advice of counsel for Westinghouse,—that so doing was illegal.

Validity of the licensed patent is not *per se* in issue before this court.

At pages 31-36 the Brief for Petitioner on Rehearing argues that the licensed patent is invalid, and it urges this Court to so hold. We assert that petitioner's arguments on this point are unsound, and specious. However, we do not permit ourselves to be lead into arguing on its merits the validity of the patent to this Court because, we respectfully submit, that is not an issue before it. The lower

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*"27. Under date of July 11, 1940, Westinghouse sent MacGregor a letter (Defendant's Exhibit L,) inclosing copies of its "User Price List," and its "Distributor Price List," and called attention to MacGregor's obligation under paragraph 5 of the license agreement to observe the prices, terms and conditions established by Westinghouse in its sale of the patented solder.

28. On August 12, 1940, counsel for MacGregor wrote Westinghouse that he regarded as illegal its requirement that MacGregor "establish a user price per pound in addition to the original sales price or dealer price," and that he could not advise MacGregor "to even attempt to enforce such a price schedule."

29. On October 23, 1940, Westinghouse, through one of its attorneys, wrote counsel for MacGregor, referring to an interview on August 15, 1940, stating in effect that there had never been any intention to "establish a user price per pound in addition to the original sales price or dealer price" for the same solder, and that "if MacGregor sells direct to the user, he should conform to the user prices established, and when he sells direct to the dealer, he should conform to the dealer prices established."

30. MacGregor was never required under the license contract or otherwise to fix resale prices on licensed solder sold by him."

courts held MacGregor estopped to deny validity, and therefore did not receive proofs or consider arguments on the merits of the validity issue. Consequently there is no record before the Court upon which validity could be adequately considered, and even if there were, validity is a question which, if it must be decided, is for the trial court in Pennsylvania. As we understand the decisions of this Court, it will not review generally decisions on matters of substance by a state court, but will correct errors of federal law and remand the case for further proceedings on the merits. The Supreme Court of Pennsylvania indicated that if it had found the trial court had erred in refusing to permit an attack on validity of the patent, it would have remanded the case for a new trial. (R. 235-6.) We are informed by counsel who argued the *Sola* case that this Court in that case expressly declined to consider validity of the patent, although counsel attempted to argue that issue on its merits. In the *Chicago vs. Katzinger* case, discussed below, the Seventh Circuit Court of Appeals expressly declined to consider validity of the patent until that issue had been tried in the District Court.

We know of no support for the petitioner's argument on this point. The cases cited at pages 29-30 of his Brief on Rehearing are merely cases in which this Court has granted certiorari to federal courts to review *infringement* cases involving validity of a patent. There is no question that this Court has jurisdiction to do that, and frequently does it. But the cases cited do not support petitioner's argument that this Court will pass on the validity of a patent on its merits in a case in which that issue has not been passed upon by the court below. Particularly is this general principle of review applicable to cases brought up from state courts.

In the Brief for Petitioner on Rehearing at page 30, it is argued that the Supreme Court of Pennsylvania had a doubt as to the validity of the Jones patent because it said:

> "We therefore do not propose to declare the Jones patent invalid."

That sentence was not a statement of the appellate court below but occurs in its opinion as a quotation (R. 240) from the opinion of the trial court at R. 174. Taken with the surrounding statement of the court it is clear that the sentence was not intended to indicate any doubt of validity of the patent. It occurs in connection with several other sentences reading as follows:

> "The price-fixing clause is not in issue. It is raised merely as a defense to a suit for accounting and payment of accrued royalties. The legality, the enforceability of the price-fixing clause is a moot question. *We therefore do not propose to declare the Jones patent invalid.* Whether the price-fixing clause in the license is legal or invalid is not before this Court." (R. 174, R. 240.)

As we understand that language the court meant that it did not propose to consider validity of the patent because that was a moot question, invalidity being asserted merely as a basis for showing illegality of the price-fixing clause, and that clause not being involved in the litigation before the court.

The Brief for Petitioner on Rehearing at page 29 quotes from the opinion of the trial court at R. 171 where that court discusses the Jones patent and the prior art, and says that discussion "proposes to pass on the merits of validity." That is a complete misunderstanding and misstatement of the trial court's point. The findings and conclusions of that court show clearly that it held validity of the patent not in issue because of defendant's estoppel as a licensee. But the *scope of the patent* and the *application*

of its claims to defendant's solders *were directly in issue.* Those issues required a review of the prior art to determine what limitations should be imposed on the claims before applying them to defendant's solders. *Westinghouse vs. Fomica,* 266 U. S. 342; 45 S. Ct. 117. All of the prior patents and publications offered in evidence by MacGregor were received by the court, *but only for the purpose of limiting and construing the patent.* This is clear from the record as shown by the following typical extracts.

> "The Court: It is my theory that if he is trying to show and can show that the Jones Patent establishes one thing whereas the two alloys patented by Mr. MacGregor are something different and not within the comprehension of this phraseology in the Jones Patent, that may be relevant, but I don't know whether that is what he is trying to do.
>
> Mr. Jaspert: That is what I am trying to do." (R. 57.)
>
> * * * * *
>
> "Mr. Jaspert: I hand you patent number 1,103,482, marked Defendant's Exhibit C, which I offer in evidence as part of the file wrapper history of the patent.
>
> Mr. Brown: *Are you offering this to attack the validity of the Jones license and patent?*
>
> Mr. Jaspert: Both.
>
> Mr. Brown: *I object to it insofar as it is offered for the purpose of attacking the validity of the patent.*
>
> *Objection sustained.*
>
> Exception noted.
>
> Mr. Jaspert: *I also offer the patent for the purpose of showing the state of the art.*
>
> Mr. Brown: *No objection to it for showing the state of the art.*" (R. 64-5.)

The KATZINGER case is different from the MacGREGOR case.

The Brief for Petitioner on Rehearing at pages 25-28 argues that the Circuit Court of Appeals decision in the case of *Chicago v. Katzinger,* 139 F. (2) 291 and 153 F. (2) 149, is in direct conflict with the decision of the Supreme

Court of Pennsylvania in the case at bar, and that such conflict supports a petition for certiorari in this case. Petitioner's brief states at page 28—"The crucial facts are the same in both the Chicago case and in this case." It then goes on to argue that the two decisions are "diametrically opposed" and are "irreconcilable."

We understand that *Chicago vs. Katzinger* is before this Court at this term on writ of certiorari. It is, therefore, inappropriate for us to argue the merits here except as our case is affected. We have heretofore argued that certain conclusions of the Seventh Circuit Court of Appeals in the *Katzinger* case are bad law. We so believe. Regardless of whether that is correct, we submit that our case, coming from a state court, presents different questions, and that even an unqualified affirmance in the *Katzinger* case would not change the judgment below in the *MacGregor* case.

As we understand from the reported decisions, Katzinger licensed Chicago Metallic Company, including in the license a provision for control of Chicago's minimum prices for licensed material. The contract also provided that Chicago could cancel or surrender the license at any time, if it discontinued manufacture of the patented product. It also provided that in case Chicago cancelled the license without discontinuing manufacture of the patented article, Chicago could thereafter be sued as an infringer, and would then be estopped to deny the validity of the patent under which it had been licensed.

Chicago manufactured a licensed material which it called Bakerex. Upon this it paid royalties. Then it manufactured a material called Bake-King, which it maintained does not come under the licensed patent. Katzinger asserted that Bake-King comes under the licensed patent. Chicago brought a declaratory judgment suit in the U. S. District

Court asserting that the license had been terminated and asking that the patent be declared invalid and not infringed by the Bake-King product. The District Court found the patent covered Chicago's Bake-King material and enforced the clause of the agreement to the effect that Chicago could not deny validity of the patent after cancellation of the license while continuing to manufacture under it. The trial court sustained Katzinger's counter-claim, ordering an injunction and accounting against Chicago, *as an infringer.*

This decision came up to the Court of Appeals, which in the opinion reported at 139 F. (2) 291 held that if the patent was invalid, the *whole* agreement was illegal because it contained a price-control clause which was "*not a separable provision*", and that the contract not to deny validity could not be enforced because of the decision in the *Sola* case.

The case was remanded for a new trial. The lower court on that new trial held the patent invalid, and that decision was affirmed on appeal, 153 F. (2) 149. At that stage apparently certiorari was granted by this Court.

Petitioner's statement that "the crucial facts are the same in both the *Katzinger* case and in this case," is not correct. The cases differ in the following respects, *inter alia.*

1. *Chicago vs. Katzinger* is a suit for *infringement* of a patent, asking for an injunction, damages, and profits.

MacGregor vs. Westinghouse is a suit *on a contract*, asking payment of royalties under an express agreement to pay royalty.

2. The estoppel to deny validity in our case arises under general principles of equity growing out of an existing licensor-licensee relationship.

In the *Katzinger* case there is no licensor-licensee relationship, the license having been terminated prior to suit, by election of the licensee.

3. *Chicago* had specifically cancelled its license and stood clear as an alleged infringer when sued.

MacGregor specifically asserts his position as a licensee in this litigation.

4. In the *MacGregor* license it is expressly provided that in case of termination of the license, no estoppel shall exist thereafter. R. 126, paragraph 10.

In the *Katzinger* contract it was expressly provided that in case of termination if *Chicago* thereafter made the licensed product it would stand as an infringer and "shall be estopped from denying the validity of said patent."

5. In the *Katzinger* case the court below expressly held the provision for estoppel to deny validity after cancellation to be *inseparable* from the price-control clauses.

In the *MacGregor* case the court below expressly held the price-control clauses divisible and *separable* from the royalty-payment obligation under the general law of contracts as construed in Pennsylvania.

It seems clear to us that the Seventh Circuit Court of Appeals in the *Katzinger* case has misunderstood and misapplied this Court's decision in the *Sola* case. It has construed that decision to hold that an *infringer* cannot by express contract be estopped from denying validity of a patent under which he previously had, but no longer has, a license—if the cancelled license ever *contained* a price-control clause,—and even if the price-control clause was cancelled with the license clause. We cannot believe that is the law, or will be made the law by this Court.

But even if we are wrong on this point and the extreme construction of the *Sola* case for which MacGregor contends be confirmed, it still would not change the judgment of the state court in the *MacGregor* case, because the price-control clauses are there divisible, and the royalty-payment clauses have been held separable and enforceable, even if the price-control clauses be held illegal.

Conclusion.

There is no equity in Petitioner's position.

This case is interesting as affording a basis for argument of some (to us) unusual law points, but on the facts and equities, reduced to its lowest terms, it represents merely an attempt of MacGregor to avoid paying a just debt. Even while trying to have the contract held illegal (to avoid payments he had agreed to make), he asserts his rights thereunder, and says (R. 93), he still observes the alleged illegal provisions of the contract.

MacGregor started making the Westinghouse patented solder immediately after leaving that Company. Promptly sued for infringement, he could have contested the validity of the patent which he now says is "*prima facie* invalid". On the advice of his present counsel, he elected to take the license here involved, to avoid defending the pending infringement suit. For four years he paid royalty. Then when payment was demanded on a new solder which he put out, MacGregor stopped payment on the solder upon which the infringement suit was based, while still retaining the protection from infringement suit afforded by the license.

The present suit on the contract was necessarily brought in the state court. Petitioner first moved to dismiss on the ground that the state court could not adjudicate the scope of a patent. That motion was denied. He then filed a declaratory judgment suit in the federal court where he

had been sued several years before as an infringer, asking that the patent be declared invalid and construed not to cover two of the licensed solders. That complaint was dismissed by the district court (45 F. Sup. 236) and the Third Circuit Court of Appeals (130 F. (2) 870) on the ground that having a license he could not be sued as an infringer, and that the state court had acquired full jurisdiction.

He tried his case in the court below chiefly on the defense that two of his three solders do not come under the patent, and therefore no royalty is payable thereon. As to one of his solders, he admitted that it comes under the patent, testified that, on advice of his present counsel, he still regarded the license as in full force and effect as applied to that solder, and stated that he would continue to pay royalty thereon. He also testified, in effect, that he was still observing and had always observed the price-control clauses. See Petitioner's Brief on Rehearing at page 22. As an alternative defense he pleaded that the entire license agreement is illegal, ignoring the fact that he is a party to the contract, and that he still claims it to be in full force and effect.

Having heretofore lost in every court on every issue, he comes to this Court arguing about Anti-trust laws and "ingenious schemes to violate federal law", in spite of the fact that, by his own testimony, he took the license without coercion, to avoid having to try the infringement suit, and that he always respected the price-fixing clauses which he here condemns so strenuously as a violation of federal law.

Petitioner's case has no tinge of merit from the point of view of equity and justice.

Respectfully submitted,

JO. BAILY BROWN,
Attorney for Respondent.

October 21, 1946.